

FISCAL IMPACT STATEMENT ON BILL NO. **S618 As Amended**

(Doc. No. 22002htc05.doc)

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TO: The Honorable Robert Harrell, Chairman, Ways and Means Committee  
FROM: Office of State Budget, Budget and Control Board  
ANALYSTS: Allan Kincaid  
DATE: May 19, 2005 SBD: 2005491

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AUTHOR: Senator Alexander PRIMARY CODE CITE: 9-1-1790  
SUBJECT: State Retirement System

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ESTIMATED FISCAL IMPACT ON GENERAL FUND EXPENDITURES:  
See Below

ESTIMATED FISCAL IMPACT ON FEDERAL & OTHER FUND EXPENDITURES:  
See Below

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**BILL SUMMARY:**

Senate Bill 618 would amend several sections of the Code of Laws of South Carolina, 1976, affecting the South Carolina Retirement System and the Police Officers' Retirement System. Among other things, the proposed Bill provides 15 days each of sick and annual leave for rehired retirees, increases the employee's contribution rate .5% and the employer's contribution rate 1% over two years, requires retirees who return to covered employment and TERI employees to pay the employee contribution for active members, postpones the annual leave lump sum payment for TERI employees, removes the earnings limitation of \$50,000 for a retiree returning to covered employment and provides a guaranteed one percent cost of living adjustment for retirees. The Bill further provides that the target allocation of system assets to either equity or fixed-income may not exceed sixty percent.

**GENERAL FUND IMPACT**

Section 6 of the Bill increases the employer contribution by 1% over 2 years effective July 1, 2006. The total additional one percent will result in approximately \$75 million in total contributions with \$25.5 million representing the additional cost to the General Fund of the State. First year cost to the General Fund of the State will be \$12.7 million. The table below depicts the impact of the full 1% increase in the employer's contribution rate.

Entities	Estimated Payroll	Total Employer Contribution	Percent State Funded	State Funded	Federal/Other
State Agencies	2,812,910,653	28,129,107	45.00%	12,658,098	15,471,009
School Districts	3,190,821,818	31,908,218	40.27%	12,849,439	19,058,779
Other Employers	1,480,859,582	14,808,596	0%	0	14,808,596
Total Payroll	7,484,592,053	74,845,921		25,507,537	49,338,384

### **STATE RETIREMENT SYSTEM IMPACT (SCRS)**

A review of this Bill by the State Retirement System and its actuary indicate that, based on an assumed 7.25% rate of return on investments, the consolidated fiscal impact of the Bill's provisions would increase the amortization period by 2.1 years and the accrued unfunded liability would increase by \$2.120 Billion. The table below details the consolidated fiscal impact of the Bill based on investment rates of return of 7.25%, 7.50%, and 7.75%.

Item	7.25%		7.50%		7.75%	
	Dollars	Years	Dollars	Years	Dollars	Years
Composite Impact	\$ 2,120	2.1	\$ 1,284	(6.0)	\$ 528	(10.5)
Current Experience Results	\$ 5,100	27.9	\$ 5,100	27.9	\$ 5,100	27.9
Projected Experience Results	\$ 7,220	30.0	\$ 6,384	21.9	\$ 5,628	\$ 17.4

\* Dollar Amounts expressed in Millions

A more detailed breakdown on the impact of each specific provision contained in the Bill is included on the attached spreadsheet.

### **SPECIAL NOTES:**

Notwithstanding the requirements of the proposed Bill to require a guaranteed 1% COLA, there has been an uninterrupted record of retiree COLA increases since 1968.

For Fiscal Years ending 2003 and 2004, the rate of return on investments for the Retirement System was 8.98% and 8.79%, respectively.

Approved by:



Don Addy  
Assistant Director, Office of State Budget

SOUTH CAROLINA RETIREMENT SYSTEM  
 ACTUARIAL IMPACT OF S618 AS AMENDED BY HOUSE  
 AMOUNTS DETERMINED BASED ON 7/1/2003 VALUATION RESULTS

Item	7.25% Experience Results		7.50% Experience Results		7.75% Experience Results	
	Dollars	Years	Dollars	Years	Dollars	Years
	▼	▼	▼	▼	▼	▼
<b>1% Guaranteed COLA</b>	\$ 2,236	50+	\$ 1,383	48.0	\$ 590	31.0
<b>Increase in Employer Contribution</b>	0	(7.6)	0	(7.6)	0	(7.6)
<b>Increase in Employee Contribution</b>	\$ (13)	(3.6)	\$ (13)	(3.6)	\$ (13)	(3.6)
<b>Retiree Contribution 6.25%</b>	0	(5.3)	0	(5.3)	0	(5.3)
<b>Remove Retiree Earnings Limit</b>	0	(0.2)	0	(0.2)	0	(0.2)
<b>Delay in Annual Leave for TERI</b>	\$ (38)	(0.7)	\$ (38)	(0.7)	\$ (38)	(0.7)
<b>Raise Equity Investment Cap to 60%</b>	0	0.0	\$ (730)	(18.0)	\$ (1,432)	(13.9)
<b>Composite Impact</b>	\$ 2,120	2.1	\$ 1,284	(6.0)	\$ 528	(10.5)
<b>Current Experience Results</b>	\$ 5,100	27.9	\$ 5,100	27.9	\$ 5,100	27.9
<b>Projected Experience Results</b>	\$ 7,220	30.0	\$ 6,384	21.9	\$ 5,628	17.4

\* Dollar amounts expressed in millions.